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RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY  
RUCPCIM/CIMS NTDB WASHDC  
RUCPDC/DEPT OF COMMERCE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEHJO/AMCONSUL JOHANNESBURG 6028  
RUEHTN/AMCONSUL CAPE TOWN 3844  
RUEH DU/AMCONSUL DURBAN 8503

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SIPDIS

DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA  
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND  
TREASURY FOR OAISA/RALYEA/CUSHMAN  
USTR FOR COLEMAN

SIPDIS

E.O. 12958: N/A  
TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [EMIN](#) [EPET](#) [ENRG](#) [BEXP](#) [KTDB](#) [SENV](#)  
PGOV, SF  
SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER JANUARY 12,  
2007 ISSUE

PRETORIA 00000151 001.2 OF 003

11. 1. (U) Summary. This is Volume 7, issue 02 of U.S. Embassy Pretoria's South Africa Economic News weekly newsletter.

Topics of this week's newsletter are:

- Reserves up on Firmer Rand
- Record 2006 Vehicle Sales
- SA Tourism Growth Robust
- Xstrata SA 'Fully Empowered'
- BEE Codes Unlikely to Boost Value of Deals
- Capital Formation at Highest Level in 16 Years
- House Price Growth Seen Easing
- Foreign Buyers 'Driven Off'

End Summary.

Reserves up on Firmer Rand

12. (U) The South African Reserve Bank (SARB) stepped up the pace of reserves accumulation in December, with gross reserves up 2.3% on the back of a relatively stronger rand. Gross reserves rose to \$25.6 billion in December, up from November's \$25.04 billion. Analysts said that current rand weakness was likely to lead to a moderate slowing in reserves accumulation, but the Bank was likely to resume activity in the market should the rand move below R7 to the dollar. Net reserves, also known as the international liquidity position, increased to \$22.98 billion, up \$817 million from November. SARB said the increase in net reserves was as result of a repayment of \$250 million of a three-year, \$1 billion syndicated loan entered into in 2004. Analysts said the increase in reserves should be seen as positive for the rand. (Business Day, January 09)

Record 2006 Vehicle Sales

13. (U) New vehicle sales in SA romped to a new high as 714,340 vehicles were driven off the shop floor last year, 15.7% more than the number sold in 2005. This was the first time SA's new vehicle sales surpassed the 700,000 mark. Following sales growth of 28% in 2005 and 25.9% in 2004, this performance ensured that SA's vehicle market was again one of the best-performing in the world. However, 2007 would be more challenging, with the domestic new car market likely to move sideways or register modest growth at best. The National Association of Automobile Manufacturers of SA (NAAMSA) expects that the industry should sell around 771,000 new vehicles in 2007, a 7.95% increase over 2006. The four interest rate hikes in

2006 began to have a restraining effect on new car sales towards year-end, and last month saw a second successive monthly drop in sales. Another key factor in the industry's performance this year would be higher vehicle pricing due to serious cost pressures. However, NAAMSA anticipates production to reach record levels this year on the back of the roll-out of major export programs, strong growth of the economy, business confidence and corporate profitability. Exports last year totaled 179,854 vehicles or 28.5% more than the 139,912 vehicles exported during 2005. Naamsa expects the trend to continue, with exports to exceed 220,000 this year. (Business Day & Business Report, January 10)

#### SA Tourism Growth Robust

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14. (U) Speaking at a conference in Holland, Environmental Affairs and Tourism Minister Marthinus van Schalkwyk said that SA's tourism industry is on a roll. Recently released statistics for the period January-July 2006 showed a 15.8% increase in tourism arrivals to SA, growing faster than anywhere else in the world. More than 4.6 million people visited SA during the period under review, outstripping the 2005 half-yearly figure by 636,610. In his address, Van Schalkwyk also referred to SA's tourism preparations for the 2010 Soccer World Cup, saying visitors to the event would have a wealth of choices for accommodation. In previous tournaments, he said, only hotels were contracted to accommodate people, whereas SA will ensure that visitors to the 2010 World Cup are treated to a uniquely African experience. "For the first time in World Cup history, non-hotel accommodation such as national park accommodation, lodges, guest houses, and bed and breakfasts will also be contracted," he said. (News24, January 09)

#### Xstrata SA 'Fully Empowered'

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15. (U) Xstrata, the global mining company, has announced a R575m  
PRETORIA 00000151 002.2 OF 003

empowerment deal on its Rhovan vanadium facility near Brits in North West Province, which it says completes its empowerment requirements in South Africa. According to Xstrata, the transaction will complete the facilitation of meaningful black participation in Xstrata's South African operations, as required by the ownership provisions of the Mineral and Petroleum Resources Development Act of 2002. The Bakwena Ba Mogopa Traditional Community has agreed to purchase a 26% stake in the company through a pooling and sharing venture, where the local community contributes the surface rights above the ore body. Xstrata's other empowerment deals include a partnership with Merafe, its Motololo empowerment deal announced in February 2006, and its coal partnership with African Rainbow Minerals also announced last February. The Bakwena Ba Mogopa Traditional Community is also African Platinum's empowerment partner on the Leeuwkop project in the same area. (I-Net Bridge, January 09)

#### BEE Codes Unlikely to Boost Value of Deals

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16. (U) Even though the black economic empowerment (BEE) Codes of Good Practice are ready to be written into law, the value of BEE deals is not expected to be in excess of R60 billion (\$8.3 billion) in 2007. According to BusinessMap Foundation BEE research director Colin Reddy, most of the bigger deals, i.e., those larger than R500 million (\$70 million), have already been completed. Reddy estimated that the total value of BEE deals in 2006 was between R50 billion (\$7 billion) and R60 billion (\$8.3 billion). Deals worth R55 billion (\$7.6 billion) were recorded in 2005, compared with R62 billion (\$8.6 billion) in 2004. (Business Report, January 10)

#### Capital Formation at Highest Level in 16 Years

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17. (U) Capital spending in South Africa is at its highest level since 1990, according to data published by the South African Reserve Bank (SARB). The data indicate that capital spending in the third quarter of 2006 was almost 19% of GDP. The increased spending on

capital was largely driven by strong domestic demand, business optimism, high capacity utilization rates, and parastatal spending. Increased investment will raise the growth potential of the economy and help to relieve infrastructure and supply bottlenecks that have caused the economy to overheat in the past. From a peak of 28% of GDP in 1982/83, capital spending declined steadily over the next 10 years, bottoming out at less than 15% of GDP at the time of the democratic transition in 1993/94. The decline in public sector capital spending was especially sharp during these years, as parastatals lost access to foreign capital markets because of sanctions. Unfortunately, the picture did not improve after the ANC took power in 1994, and investment hovered around 15% of GDP throughout the 1990's as the government had to bring the fiscal deficits under control and struggled with slow implementation of projects. However, capital spending picked up steadily since 2002 and is poised to become a vital driver of the economy.

#### House Price Growth Seen Easing

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18. (U) According to the latest ABSA house price index, house prices grew by 15.2% in 2006 compared to 22.7% in 2005. This brought the average price of a house to about R857,400 (\$120,000) at the end of 2006. ABSA senior economist Jacques du Toit said the decreased affordability of housing had driven the declining trend. He expects the declining trend to continue in 2007 as a result of a tighter economy and higher interest rates. However, he expects the residential market to turn around and experience a gradual upward trend in price growth in 2008 on the back of an expected lower interest rate and inflation environment that year. Du Toit said nominal house-price growth of about 9% was forecast for 2007 with prices set to increase about 3% in real terms. House-price growth was expected to improve to above 10% on a nominal basis during 2008 and into 2009. Meanwhile, Sotheby's International Realty said SA's property prices were starting to catch up with those in the "globe's most desirable locations." (News24, January 11)

#### Foreign Buyers 'Driven Off'

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19. (U) Cape Town-based international remortgaging firm Bond Busters  
PRETORIA 00000151 003.2 OF 003

said consistent negative overseas press coverage about crime, former deputy president Jacob Zuma, and the threat of foreign buying restrictions in SA could be behind the drop in foreign buying of residential property in the country. According to the latest First National Bank residential property barometer, foreigners made up 4% of property buyers in SA in the fourth quarter of 2006, a significant reduction from the 7% recorded a year previously. Ian Wason, joint managing director of Bond Busters, says he believes the drop in foreign buyers were due to the negative sentiment regarding SA. He said that many conflicting statements on foreign ownership had caused many buyers to give up on acquiring property here. "Overseas press, particularly in the UK, is always keen to bash SA whenever they get the opportunity," said Wason. (Business Day, January 11)

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